

**CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
JUNE 24, 2013 MEETING MINUTES**

1. CALL TO ORDER

The meeting was called to order at 4:02 p.m. in the Newport Coast Conference Room, Bay 2E, 100 Civic Center Drive, Newport Beach, California 92660.

2. ROLL CALL

Present: Council Member Mike Henn (Chair), Mayor Keith Curry and Council Member Tony Petros

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, Accounting Manager Rukshana Virany, Revenue Manager Evelyn Tseng, Fire Chief Scott Poster, Deputy Chief Kevin Kitch, Lifeguard Operations Assistant Chief Rob Williams, EMS Manager Cathy Ord, Assistant City Attorney Leonie Mulvihill, HR/Risk Manager Lauren Farley and Administrative Coordinator Tammie Frederickson

Outside entities: Nitin Patel, White Nelson Diehl Evans LLP; Erin Payton, MGT of America, Inc.

Members of the public: Jim Mosher, Carl Cassidy

3. PUBLIC COMMENTS

No public comments were made.

4. APPROVAL OF MINUTES

Council Member Petros moved, Mayor Curry seconded to approve the minutes of the May 13, 2013, meeting inclusive of Mr. Mosher's suggested corrections submitted in writing in advance of the meeting.

5. CURRENT BUSINESS

A. Audit Entrance Conference

Finance Director Matusiewicz noted that staff has met with the auditors to discuss major transactions for the year. He further noted that this agenda item provides Finance Committee members the opportunity to get a brief introduction from the auditor on the audit planning process and to ask questions.

Mr. Patel spoke about auditor responsibilities in performance of the audit, the most important of which is to form and express an opinion on the financial statement. The audit is performed in accordance with governmental and generally accepted audit standards and is designed to give reasonable

All documents distributed for this meeting are available in the
administration office of the Finance Department

assurance that the financial statement is fairly presented in accordance with generally accepted accounting principles. When performing fieldwork the auditors will consider the internal control structure and at the conclusion of the audit will communicate in writing any significant matters. Mr. Patel indicated that his initial meeting with staff covered significant financial transactions, management operations and changes, and forthcoming pronouncements that are applicable for the current year. The most significant pronouncements include Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position; and Statement 65 - Items Previously Reported as Assets and Liabilities.

In response to Council Member Petros' request, Mr. Patel further explained Statement 63. He noted that the government-wide financial statement will now show five elements that include assets; deferred outflow of resources, which is similar to prepay; liabilities; deferred inflow of resources, which is similar to unearned revenue; and net position.

Mr. Mosher commented that the audit process seems to be backward to what the City Charter specifies, namely that the City will retain the auditor at the beginning of the fiscal year instead of at the end of the year. Mr. Mosher questioned whether the audit will reveal incidents of embezzlement or other such behavior. Mr. Patel explained that the audit is not designed specifically for detecting such behavior; however, transactions are tested on a randomized basis and any findings would be reported to the Committee. He added that under the current standards, auditors are required to identify fraud in the financial statement audit and review internal control structure and segregation of duties in order to make such an identification. Council Member Henn noted this is all in accordance with standard practice for conducting an audit.

B. City Insurance Renewals

Mr. Matusiewicz stated the City Council will consider approval on renewal of the City's insurance policies at their June 25, 2013 meeting. This agenda item provides Finance Committee members the opportunity to ask questions on the premiums being charged for next year's coverage.

Mayor Curry questioned why there are significant increases in the premiums. Risk Manager Farley addressed the property insurance increase and noted that the addition of the Civic Center complex increased the total insured value 53% along with other property valuation assessments which gave a premium increase of about \$320,000.

In discussing the excess general liability insurance premium, Ms. Farley explained that for about the past 15 years the City has been able to maintain a \$500,000 self-insured retention (SIR) which is uncommonly low for a coastal, full-service city. Due to experiencing some recent losses and claims paid in excess of the \$500,000 SIR limit, the quote from the current insurance carriers has a higher SIR of

All documents distributed for this meeting are available in the
administration office of the Finance Department

\$1 million. This was outlined as Option #1. Option #2 is a second tentative quote with a \$500,000 SIR received from the CSAC Excess Insurance Authority. A decision at an underwriters meeting on Tuesday is pending to determine whether Big Canyon Reservoir will be included in the coverage since it is designated as a dam. Ms. Farley said if the outcome of the underwriters' decision is to exclude the reservoir, staff would recommend Option #1 to the City Council.

Ms. Farley explained the increase in the workers' comp insurance premium is due to the fact that medical expenses continue to escalate and there have been some significant claims that resulted in disability retirements.

In response to a question raised by Council Member Henn, Ms. Farley clarified that the deductible for earthquake and flood insurance is 10% of the insured value of the asset.

Mr. Mosher commented that the public would benefit from knowing what claims have been paid and he questioned whether the \$50 million limit in excess general liability is sufficient. Ms. Farley reported that the City raised the general liability limit to \$50 million based on a jury award of \$50 million for a Dana Point bicycling claim. She stated the level is prudent and there is no cause to increase it to a higher limit based on actuarial review and comparison to benchmarking cities. She added that in the property insurance limit the City is in the upper band relative to benchmarked cities. There is no recommendation at this time to increase the limit.

Mr. Cassidy referred to the old City Hall and questioned whether it would be useful to have an account for discontinued assets. He asked what mechanism is used to track major variances to the budget. Mr. Matusiewicz noted he would report any major changes in the financial status as they occur to the Finance Committee. City Manager Kiff added the Quarterly Financial Report is another tool used to communicate financial status. Mr. Kiff stated that staff budgets revenues and expenditures in a conservative manner. This is a prudent practice and can result in having extra funds to report to Council at the end of the year.

It was suggested that next year it may be helpful to schedule a Finance Committee meeting with the insurance actuaries in January at the beginning of the application process and in advance of when the policies are up for review.

On a final note, Ms. Farley pointed out that if the Big Canyon Reservoir is approved by the CSAC underwriters committee, staff will prepare a Resolution for Council approval and bring it to the June 25, 2013 meeting.

C. Fire Fee Schedule

Mr. Matusiewicz introduced the item with an explanation of the cost study review of Fire Department fees that was prepared by MGT in conjunction with staff from the Fire and Finance Departments. An in-depth and comprehensive look at all

All documents distributed for this meeting are available in the
administration office of the Finance Department

the fees was completed resulting in major changes to planning and development fees, and the addition of new fees representing best practice industry standards. The inclusion of these new fees is consistent with the fees applied by a majority of Orange County cities and is closest to the model of Orange County Fire Authority. He noted the paramedic subscription fee, which had not been adjusted for 10 years, is proposed to increase from \$48 a year to \$60 a year.

In response to a question raised by Mayor Curry, Deputy Chief Kitch stated that new fees for service included in the proposed fee schedule are better aligned with the costs of performing the service. Chief Kitch explained the fees are broken into two components to cover planning and development for issuance on project approvals and inspection services for ongoing required annual maintenance. He noted that planning and development fees are reflective of the Fire Authority fee schedule which the building industry developers are familiar and comfortable with in Orange County. He commented the proposed fees are more fair and equitable because the fee is more representative of the service time it takes to provide the service. Mayor Curry expressed concern about adding new fees and said the staff report needs to better explain the new fees relative to what the fee structure was previously and answer how much more or less it will cost for a given service.

Council Member Henn agreed the fees have been expanded so much it may not be possible to show a breakdown comparison of the amount of revenue collected in the old categories against the expanded new categories. It was suggested to identify how the proposed fees stack up against Fire Authority fees and to have a representative of the building industry speak in support of the new fee structure. This would likely help people understand the new fee structure. Mr. Kiff suggested showing what the cost would be using the new fee schedule as a comparison on some actual projects that were done over the past year.

Council Member Petros stated if this is considered an impacting subject to the Government Code 66000 provisions, it should be demonstrated how these fees go up against the five findings in the Government Code section. He indicated that he wants to see how the fees were derived and he directed the structure be simplified if possible.

Council Member Henn commented that he would like to see a report at the end of fiscal year 2014 that will show a comparison of the aggregate difference in the fees collected, with an adjustment for volume, in the new structure compared to the old fee structure.

Mr. Matusiewicz spoke about the Junior Lifeguard fees and pointed out an error on the schedule for resident participants which lists the fee as \$697 but should be \$725 which is a 15% subsidy. Assistant Chief Williams said the current fee is \$695 and the fee increase captures this year's CPI because as the fees were still being studied there was not a CPI increase. There was discussion about the resident fee

All documents distributed for this meeting are available in the
administration office of the Finance Department

increase and the amount of the subsidy. Council Member Petros questioned whether a higher subsidy should be considered given that the program is so popular and teaches children about ocean safety. Mayor Curry suggested raising the fee to \$700 and increasing the amount of the subsidy percentage.

Mr. Matusiewicz went on to address fees for Emergency Medical Services that are currently subsidized at 80% and elimination of the subsidy is proposed to achieve full cost recovery. EMS Manager Ord explained the difference between Advanced Support and Basic Life Support (ALS and BLS) and the billing that occurs when a patient is transported by the paramedics or by ambulance. The Fire Medics program is voluntary for Newport Beach residents and she stated Fire Medics members would have no out of pocket costs for transports. Chief Poster gave further details about the analysis of the costs and noted the Orange County fee approved by the Board of Supervisors is higher than the City's costs. He said the proposed fees are 1) completely justifiable given the City's actual costs, 2) more simply structured, and 3) less than what the County charges. Council Member Henn stated the staff report should spell out those comparisons. There was further discussion about the subsidy and Council Member Henn asked for better clarity in the staff report. Mayor Curry said that staff should demonstrate how the fees are based on the results of the study, how the proposed fees compare to the fees of the County and neighboring cities, how insurance or the lack thereof impacts cost recovery, and how the subsidy works and is applied.

Mayor Curry noted this proposed fee schedule revision should be brought to the City Council at a Study Session prior to placing it on an agenda for adoption.

Mr. Mosher suggested it would be helpful to know what fraction of Fire Department activity is covered by property taxes and how much is not funded. He asked if he would be billed for a fire at his house and does it matter whether he called or somebody else reported the fire, and how aggressive is the City about collecting payment if he did get a bill and whether the Council thinks the City should be aggressive about that. He questioned whether the proposed fees will change as a result of the study by the consultant hired by Council to review the Fire Department and services. Council Member Henn commented that every department's fees are studied on a 3-year cycle and the impact of any strategic changes in the fire service will be reflected in a future fee schedule update.

D. Third Review of Facilities Financial Planning Tool (FFPT)

Mr. Matusiewicz explained minor revisions made to the FFPT are the result of recent year-end budget action. He pointed out the average General Fund contribution over a 30-year period amounts to \$10.6 million. Mr. Matusiewicz proposed bringing the FFPT to a City Council Study Session for review, if Finance Committee members are in agreement with the current iteration of the FFPT.

Council Member Henn questioned the timing for branch library projects. Mr. Kiff commented that community use of libraries is changing and it would be beneficial to wait a few years to include planning for rebuilding branch libraries after determining future usage of libraries. Mayor Curry and Council Member Henn were in agreement that the libraries should be reflected in the plan after 2024.

Council Member Henn noted it is important to show these important points in the staff report: include development fee contributions as a key planning highlight; note this iteration does not fully represent the potential for surplus asset disposition or monetization; and point out that although there is \$20 million borrowing represented in the out years associated with rebuilding the Police headquarters, it is entirely possible that the plan will be cash funded and no borrowing will be needed.

Mr. Cassidy affirmed it is important to reflect all revenue such as for reuse of the old City Hall property and he spoke in support of the decision to build the Civic Center. Council Member Henn pointed out there is a line item for City Hall reuse represented. He agreed that there is some other revenue that isn't reflected but the key issue to convey is the money that was borrowed for building the Civic Center may well be the only borrowing associated with a 30-year plan to completely redo all of the City's key facilities.

E. Demonstration of Long-Range Fiscal Forecasting Tool

Deputy Director Montano demonstrated the MuniCast forecast trend analysis model which is used as an analytical tool to create baselines and alternative annual forecast of revenues and expenditures. He stated only General Fund is currently loaded in the model but it can also be used for Enterprise Funds. The goal is to further refine the model during the budget year for use in the decision making process.

Using the 32 revenue and 29 expenditure categories in the General Fund, Mr. Montano showed how the baseline assumptions can be adjusted +/- 5% to change the forecast picture. He also demonstrated how the interactive scenario assumptions can be used to reflect sensitivity analysis and estimate potential impacts of budget decisions moving forward.

Council Member Henn acknowledged use of this tool will be helpful in starting the financial planning cycle with the development of a strategic plan followed by developing the budget. Mr. Matusiewicz welcomed input on categories to include in the model that will help with making better informed decisions.

6. FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

All documents distributed for this meeting are available in the
administration office of the Finance Department

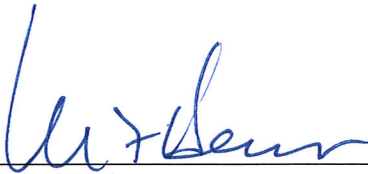
No future agenda items were discussed.

7. ADJOURNMENT

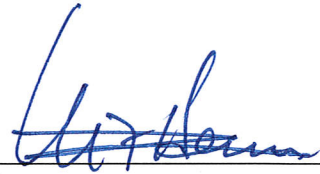
The Finance Committee adjourned at 6:00 p.m.

Filed with these minutes are copies of all material distributed at the meeting.

Attest:



Mike Henn, Chair
Finance Committee Chair

 10/15/13

Date

All documents distributed for this meeting are available in the
administration office of the Finance Department